FORTIS BC™

Diane Roy
Director, Regulatory Services

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

December 18, 2015

Via Email
Original via Mail

British Columbia Utilities Commission
Sixth Floor
900 Howe Street
Vancouver, B.C.
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary and Director

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI or the Company)

Application for its Common Equity Component and Return on Equity (ROE) for 2016 (the Application)

Response to the British Columbia Utilities Commission (BCUC or the Commission) CONFIDENTIAL Information Request (IR) No. 1 – Filed Non-Confidentially

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On October 2, 2015, FEI filed the Application referenced above. On November 25, 2015, the Commission issued BCUC Confidential IR No. 1 (Exhibit A-4). FEI confirms that all of the responses to BCUC Confidential IR No. 1 are not confidential, and are being filed publicly for the record. FEI hereby attaches the responses to BCUC Confidential IR No. 1 on a non-confidential basis.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Parties

A. FORTISBC ENERGY INC. BUSINESS RISK ASSESSMENT

1.0 Reference: Exhibit B-1, Appendix C – FEI Business Risk Assessment, Section 7.1.2, Midstream (Transportation and Storage), p. 54;

FEI 2014/15 Annual Contracting Plan Amendment, dated September 24, 2014, pp. 1–3;

FEI 2014/2015 Gas Supply Mitigation Incentive Program (2014/15 GSMIP) Review, letter dated September 24, 2015, pp. 3–4

Industrial customers – Spectra T-South transport

On page 54 of Appendix C, FortisBC Energy Inc. (FEI) states:

> A significant volume of gas supply serving industrial customers in the Lower Mainland uses the T-South system to flow on an interruptible basis, which means their gas supply is at risk of being cut in the event there is less uncontracted transportation capacity available. Any major decrease in the future availability of transportation capacity risks leaving these customers without adequate gas supply, or they will need to pay significantly higher commodity prices at Huntingdon before any infrastructure expansions can be completed. Given that these industrial customers have not made a commitment to hold transportation capacity in the past this may present some challenges for these customers moving forward.
>
> The supply risk to FEI's customers and other PNW utilities increases if new demand is added and there continues to be a lack of new pipeline transportation capacity. At this time, the only new industrial demand is for FEI's Tilbury LNG facility expansion project. The potential new loads from other potential projects are still pending, so in the short term the risks in terms of physical supply to meet the physical demand remain the same. However, if new load is added to the existing regional pipeline infrastructure, then supply constraints will increase FEI's throughput risk.

On September 24, 2014, FEI filed an amendment to the 2014/2015 Annual Contracting Plan (2014/15 ACP) on a confidential basis. The British Columbia Utilities Commission (Commission) accepted the amendment to the 2014/15 ACP by Commission letter L-53-14 dated October 2, 2014. In the 2014/15 ACP amendment, FEI states:

> Due to recent changes in market conditions affecting the future level of firm transportation contracting on the Spectra T-South system, FEI requests approval to amend the 2014/15 ACP in order to secure additional firm T-South

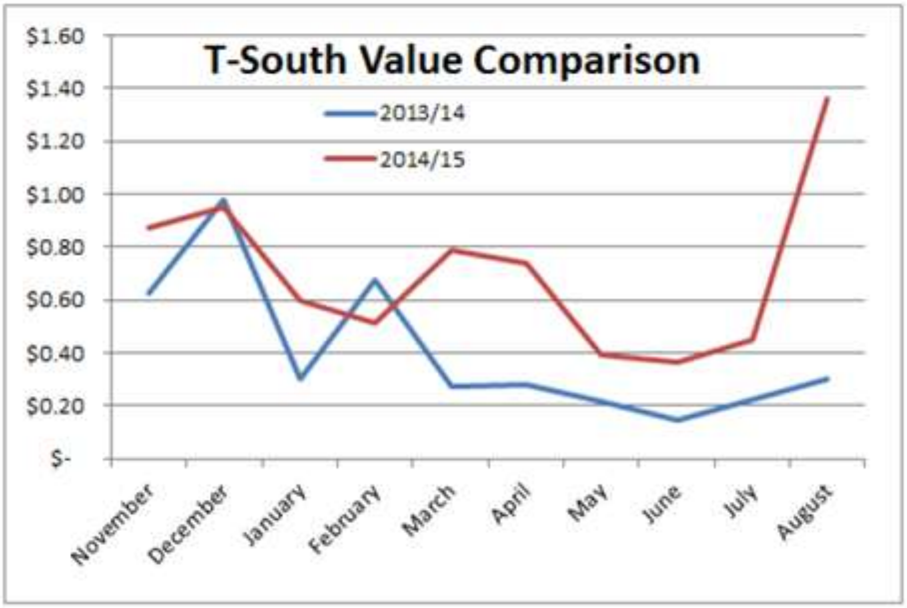
> transportation capacity for Rate Schedule 46 and industrial transportation customers seeking to return to bundled service.
>
> FEI seeks Commission approval to secure an additional 75 TJ/d of firm Spectra T-South transportation capacity for the winter of 2015/16 for Rate Schedule 46 and industrial customers.
>
> A significant volume serving industrial customers in the Lower Mainland flows on an interruptible basis today. Any major decrease in the future availability of transportation capacity risks leaving these customers without adequate gas supply or they will need to pay significantly higher commodity prices at Huntingdon before any infrastructure expansions can be completed. Given that these industrial customers may not generally have sufficient credit to secure long term firm transportation capacity, and have not made a commitment to hold transportation capacity in the past, FEI faces the potential that these industrial customers will seek to return to it for bundled service. Importantly, this industrial load competes for T-South transportation capacity with industrial load located in the US PNW, which underscores the urgency in being in a position to be able to secure capacity soon.

On September 24, 2015, FEI filed a confidential letter for the 2014/2015 Gas Supply Mitigation Incentive Program (2014/15 GSMIP) Review. FEI on page 3 of the confidential letter states:

> Over the course of the last year, additional production has come onto the Spectra Energy (Spectra) T-North system with no incremental pipeline capacity to take the production away… Compounding this problem has been multiple pipeline constraints on Spectra's T-South system, Nova, and Alliance pipelines. The net effect of the surplus supply at Station 2 and the pipeline constraints created unprecedented T-South and Southern Crossing Pipeline (SCP) East value during the summer period.

On page 4 of the same letter, FEI provided Figure 2 which shows a T-South value comparison:

Figure 2: T-South Value Comparison in Cdn/GJ



1.1 The Commission accepted the amendment to the 2014/15 ACP by letter L-53-14, stating that the disclosure of the filing could impact FEI's ability to obtain favourable commercial terms for future natural gas supply contracts on behalf of its core market customers and agreed to hold the filing confidential. Please confirm if the September 24, 2014 filing should still remain confidential.

Response:

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

FEI confirms that the September 24, 2014 filing no longer needs to remain confidential because FEI's T-South capacity holdings for November 2015 are now publicly available. Further, FEI was bidding for this capacity in an open season so this letter needed to remain confidential prior to WEI awarding the capacity during that open session. Please refer to Attachment 1.1 for a copy of the September 24, 2014 filing of the Amendment to the 2014/15 Annual Contracting Plan.

1.1.1 If so, please provide a confidential response to the following questions related to industrial customers and provide reasons for confidentiality.

To the extent possible, provide a public response to the following questions related to industrial customers and modify the preamble to remove commercially sensitive information. If the filing is no longer considered confidential by FEI, please provide the September 24, 2014 filing in your response to this IR.

Response:

Please refer to the response to BCUC Confidential IR 1.1.1 in this set being filed on a non-confidential basis for the public record.

1.1.2 Please quantify the following FEI statement that: "A significant volume of gas supply serving industrial customers in the Lower Mainland uses the T-South system to flow on an interruptible basis."

Response:

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

Using 2014 as an example, FEI's customers that are part of the transportation service option consumed approximately 63.5 PJs. Of this amount, approximately 32 PJs flowed to the Interior and 31.5 PJs flowed to the Lower Mainland. FEI is unable to determine how much T-South capacity is held by Lower Mainland transportation customers, as the capacity is not held in their name according to the WEI capacity reports. Furthermore, in discussion with some transportation customers and the Gas Marketer that represents them, it is generally understood that not many transportation customers have contracted directly for the T-South capacity that is required to meet their firm load requirements. This is a purchasing strategy that transportation customers have undertaken for a long period of time.

As a result, a significant portion of the 31.5 PJs is either purchased at the Sumas marketplace or relies on interruptible capacity available on the T-South system to flow supply down from Station 2. Now that T-South is fully contracted on a firm basis, far less capacity is available that can be acquired on an interruptible basis to serve the load requirements of transportation customers in the Lower Mainland. Thus, these customers need to purchase gas at the Sumas market hub and could be subject to supply shortfalls, which will be reflected in the Sumas price.

1.1.3 FEI states "Given that these industrial customers have not made a commitment to hold transportation capacity in the past this may present some challenges for these customers moving forward." Of the additional 75 TJ/d of firm Spectra T-South transportation capacity for the winter of 2015/16, please confirm that 40 TJ/d are from industrial customers who may return to FEI for bundled service.

Response:

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

FEI manages its T-South capacity as a whole to meet the annual service requirements of Rate Schedule 1-7 sales customers, future demand for Rate Schedule 46 customers, as well as the possibility of industrial customers returning to FEI for bundled service. At the time of the 2014/15 Amendment to the ACP filing, the amount held for industrial customers who may return to FEI for bundled service was estimated as 40 TJ/day. However, as the mix of resources identified in the Annual Contracting Plan changes somewhat over time, the allocation of firm transportation capacity to meet the load requirements of specific customer groups also changes. As a result, due to a load forecasting change in the 2015/16 ACP, FEI allocated a portion of that 40TJ/d to FEI's customers (i.e., Rate Schedules 1-7).

There are many moving parts that impact the amount of T-South to hold within the ACP that is reviewed annually by the BCUC. However, commitments to resources such as T-South may need to be made in advance to secure the underlying assets. FEI is competing for resources in a constrained marketplace that will become even more challenging once the potential new demand comes online in the near future. Given that T-South is now fully contracted as of November 1, 2015, the flexibility to secure incremental T-South has been reduced. Therefore, it is important to hold resources under firm contract to meet the changing demands of customers that are covered by the ACP or customers that may come back to FEI's bundled service.

1.1.4 Has FEI experienced any industrial customers returning to FEI for bundled service and thereby have to use the incremental T-South capacity? If so, please specify. If not, does this mean the capacity related risks generated by industrial customers face are low?

Response:

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

Although the question refers to industrial customers, FEI assumes the question intends to mean transportation service customers returning to FEI's bundled service. Transportation customers include, but are not limited to, industrial customers.

FEI has not seen any transportation service customers returning to FEI for bundled service that can be attributed specifically to the capacity related risk; nor are any expected to return at this time. This does not mean however, that the capacity related risk for transportation service customers is low. The potential new market demand in the region, which includes LNG and methanol projects, still exists but may be delayed. Additionally, the specific timing of when these projects may come into service remains very uncertain. Given that the T-South Long Haul pipeline is now fully contracted as of November 1, 2015 and that existing transportation service customers are unlikely to be able to underwrite new pipeline capacity expansions, the risks to meet these transportation customer requirements still remains. Any mismatch in the timing of when this new demand materializes and when new incremental transportation capacity becomes available will exacerbate the risk these transportation service customers face.

1.2 Please explain why the September 24, 2015 letter regarding the 2014/15 GSMIP including the recent status of Station 2 and Spectra T-South should remain confidential.

Response:

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

The September 24, 2015 GSMIP letter was submitted confidentially because the 2014/15 GSMIP gas year had not yet concluded, and commercial deals were still being transacted by FEI. Now that the GSMIP 2014/15 year has concluded, this letter no longer needs to remain confidential. Please refer to Attachment 1.2 for a copy of the September 24, 2015 GSMIP filing.

1.2.1 If this information should continue to be kept confidential, to the extent possible, please provide a public response to the following question related to the status of Station 2 and T-South value and modify the preamble to remove commercially sensitive information.

Response:

Please refer to the response to BCUC Confidential IR 1.1.2 filed non-confidentially.

1.2.2 Does FEI view that its current contracted position in T-South transport holdings adequately mitigates the risk of supply constraints and FEI's throughput risk?

Response:

The response to this question is not confidential, therefore, it is being filed on a non-confidential basis for the public record.

FEI files an Annual Contracting Plan (ACP) with the BCUC in the spring of each year. The ACP identifies a mix of resources that are contracted and help to ensure security, diversity and reliability of gas supply in order to meet FEI's core customer design peak day and annual requirements. The mix of these resources changes over time in response to changing market conditions, which is described in more detail below.

Prior to the 2013/14 gas contract year, one way FEI made changes to its supply portfolio was purchasing more or less gas at the Sumas marketplace to balance the portfolio on an annual basis. In 2013/14, FEI moved away from the Sumas market as a supply hub, to mitigate potential supply risks caused by the significant volumes of gas flowing on an interruptible basis, due to the low level of firm contracting on Westcoast's (WEI) T-South system. As a result, FEI has contracted for more T-South transportation capacity to replace the Sumas purchases in the ACP since 2013/2014. Given the level of uncontracted firm capacity on T-South at that time, FEI was able to adjust its annual T-South pipeline capacity each year based on changes to the supply/demand portfolio to balance the portfolio.

Market conditions changed again when the T-South pipeline became fully contracted effective November 1, 2015. As a result of this, all companies/utilities in the region are competing for the same limited resources. Therefore, FEI may have to plan to make a commitment to resources in advance of when they are needed. The Amendment to the 2014/15 ACP letter that FEI filed in the fall of 2014 is an example of such a commitment.

As discussed in the response to BCUC Confidential IR 1.1.3, changes in core market demand for 2015/16 have already forced FEI to use some of the capacity secured in the fall of 2014 (75 TJs/d). Any significant changes in customer load growth, customer additions, and/or transportation customers returning to bundled service makes it difficult to determine with certainty whether FEI has sufficient third party transportation capacity contracted beyond 2015/16.

1.2.3 Does FEI view that the GSMIP, including the recent mitigation success of T-South, reduces the risks of ratepayers and shareholders in energy supply risk?

<u>Response:</u>

The response to this question is not confidential, therefore, is being filed on a non-confidential basis for the public record.

The Gas Supply Mitigation Incentive Program (GSMIP) is an incentive mechanism designed to align the interests of customers and the shareholder so that opportunities for the resale of unused gas supply resources are maximized on a particular day or season. While recovery revenue acts to reduce gas costs, which benefits all sales customers, it does not have any impact on energy supply risks.

In the 2015/16 GSMIP calculation, FEI will not include the mitigation revenue for the portion of the T-South capacity that FEI acquired for the Rate Schedule 46 customers, as well as the amount remaining for industrial customers possibly returning to FEI for bundled service. [1]

[1] FEI allocated a portion of the additional T-South capacity to FEI's core customers, as discussed in the response to BCUC IR 1.1.3.

Attachment 1.1

Diane Roy
Director, Regulatory Affairs

FortisBC Energy
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

~~CONFIDENTIAL~~

September 24, 2014

Via Email
Original via Mail

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI or the Company)

Amendment to the 2014/2015 Annual Contracting Plan (2014/15 ACP)

~~**CONFIDENTIAL**~~

On May 1, 2014, FEI filed, on a confidential basis, its 2014/15 Annual Contracting Plan. The Commission accepted the 2014/15 ACP on July 17, 2014.

Due to recent changes in market conditions affecting the future level of firm transportation contracting on the Spectra T-South system, FEI requests approval to amend the 2014/15 ACP in order to secure additional firm T-South transportation capacity for Rate Schedule 46 and industrial transportation customers seeking to return to bundled service.

Changing market conditions are occurring in response to a number of new industrial projects wanting to secure T-South transportation capacity on the Spectra system. In response to this change, Spectra is considering introducing a new service that would allow shippers to secure T-South capacity in the future. This new service will facilitate the orderly marketing of existing uncontracted T-South Huntingdon capacity and provide prospective markets with greater certainty that pipeline capacity will be available for future needs. This new service would provide shippers with another means of securing capacity for future use, in addition to the Bid Week process (13 month service) that is currently available.

It is expected that this new service from Spectra will require parties to make a commitment for a minimum of 10 years to secure T-South capacity and will provide the option to defer the commencement date of the first flow for a period of up to a maximum of 48 months. This commitment level is considerably greater than the two year renewable service that is currently available to parties under the 13 month Bid Week process. This new service should be of interest to shippers who need to secure firm transportation capacity to support industrial projects that will bring significant incremental loads to the region. However, committing to a 10 year contract may be difficult for some industrial customers currently participating in the FEI transportation model given the need to demonstrate credit worthiness that is required to secure firm transportation capacity.

Request for Acceptance

FEI seeks Commission approval to secure an additional 75 TJ/d of firm Spectra T-South transportation capacity for the winter of 2015/16 for Rate Schedule 46 and industrial customers. This new capacity would be secured either entirely during the next Bid Week or in stages over future Bid Weeks depending on developments affecting current market conditions. The next opportunity to bid for firm capacity on T-South is during the Bid Week that commences on October 1, 2014 and ends on October 7, 2014. Following this Bid Week in October, future Bid Weeks start on the first Wednesday of each month.

The total biddable capacity is adjusted for each Bid Week to reflect the amount of non-firm capacity remaining after accounting for firm capacity commitments. The advantage of securing firm capacity during these periods is that it will not start for 13 months. For example, for firm capacity secured during the October 2014 Bid Week, capacity will start to flow on November 1, 2015. Thus, there are no costs until the service starts. Although the service only has a two year commitment in order to secure renewal rights, FEI would secure this capacity for a minimum five year term in order to receive the maximum discount available at this time.

FEI requests an expeditious review of this request and requires a Decision no later than Friday, October 3, 2014. This timing is critical because it would allow FEI to participate in the next Bid Week before it closes (October 7, 2014).

Reasons for the Request

Earlier this month Spectra proposed a new service that involves offering shippers the ability to lock-in existing non-firm T-South Huntingdon capacity for the long term and well before the service commencement date. The offering of this service is driven by new demand from projects either announced or being considered in the Lower Mainland and US PNW that will require pipeline capacity as early as 2016/17.

A significant volume serving industrial customers in the Lower Mainland flows on an interruptible basis today. Any major decrease in the future availability of transportation capacity risks leaving these customers without adequate gas supply or they will need to pay significantly higher commodity prices at Huntingdon before any infrastructure expansions can be completed[1]. Given that these industrial customers may not generally have sufficient credit to secure long term firm transportation capacity, and have not made a commitment to

[1] This industrial load includes Rate Schedule 22, 23, 25, and 27 customers.

hold transportation capacity in the past, FEI faces the potential that these industrial customers will seek to return to it for bundled service. Importantly, this industrial load competes for T-South transportation capacity with industrial load located in the US PNW, which underscores the urgency in being in a position to be able to secure capacity soon.

The availability of sufficient T-South transportation capacity could also affect Rate Schedule 46 customers given the timing of when incremental supply is needed to serve them. The market change driven by Spectra's new service offering requires additional transportation capacity for these customers to be contracted for now rather than waiting. Rate Schedule 46 customers are forecast to require approximately 4 TJ/d by November 2015 and 9 TJ/d by November 2016. This volume is expected to increase as more customers enter into agreements for Rate Schedule 46 service. To serve this new demand, requires FEI to secure the equivalent transportation capacity to match the 35 TJ liquefaction capacity that is being constructed at Tilbury to serve this market.

It is for these reasons that FEI believes it is appropriate to secure new T-South capacity now for these two markets.

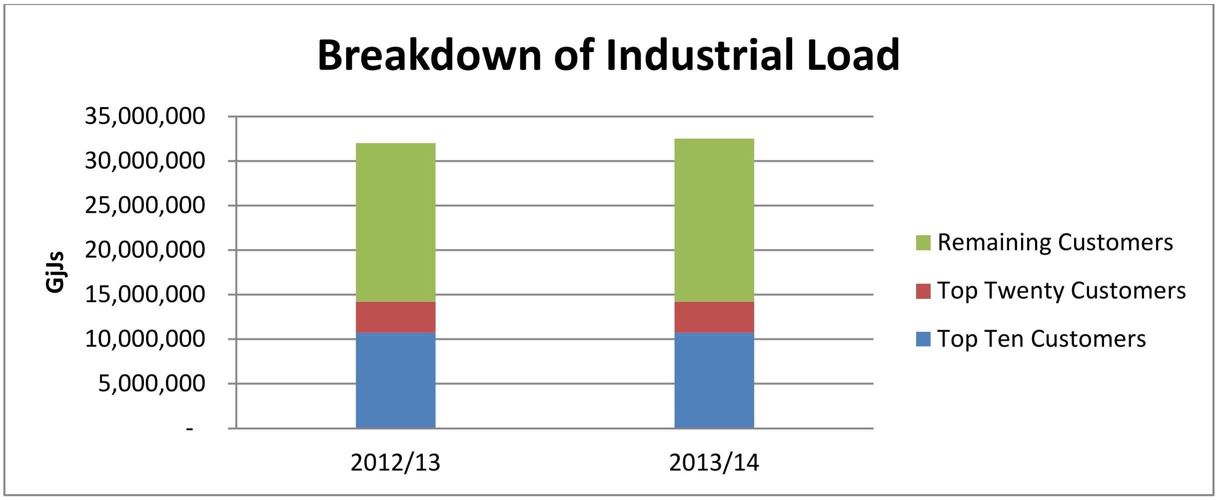
Analysis

The industrial demand under consideration is for Rate Schedule 22, 23, 25 and 27 customers located in the Lower Mainland only. Large industrial customers on Vancouver Island, like the Joint Venture and BC Hydro, are assumed to be directly involved in evaluating Spectra's new service offering and in a position to adequately respond to the pending market change. As a result, FEI has not included their volumes in its analysis.

Interior industrial customers on the FEI system are not at risk because alternatives are in place to serve their loads. Additionally, the competition for T-South Long Haul should not impact their ability to secure additional T-South Interior capacity should they chose to do so.

A review of actual consumption of Rate Schedule 22, 23, 25 and 27 customers located in the Lower Mainland over the last two years indicates that peak demand day occurred on February 5, 2014 when it reached 160 TJ. Although peak demand day reached 160 TJ, FEI does not believe is it necessary to pick up additional firm transportation capacity to match this full amount.

As shown in the following graph, the top 10 Lower Mainland industrial customers consume approximately 11 PJ annually or 30 TJ/d, which accounts for 33 percent of the total load. The combined top 20 industrial customers account for approximately 15 PJ or 40 TJ/d, which accounts for 44 percent of the total load. Given their size, FEI assumes that it is likely that these customers will be proactive in ensuring they have supply secured so that the entire load represented by these customers will not need to be served by FEI. Although these large volume customers are expected to adequately respond to this issue, FEI still faces the possibility that a lack of sufficient credit worthiness by some of these customers will result in them seeking to return to bundled service.



After adjusting the recent peak day demand of 160 TJ for load from larger customers, indicates that a portion of approximately 120 TJ would most likely need to be served. Given the uncertainty in estimating how many industrial customers may elect to return to bundled service, FEI believes it is reasonable to secure firm transportation capacity only for approximately one-third of this industrial demand, or 40 TJ/d, combined with the 35 TJ liquefaction capacity for Rate Schedule 46 service. Combined, these two requirements total 75 TJ/d and would be contracted for on a firm basis for a minimum five year term.

FEI will continue to monitor this situation, and as pointed out earlier, this new capacity would be secured either entirely during the next Bid Week or in stages over future Bid Weeks depending on developments affecting current market conditions. Furthermore, depending on how the market unfolds, FEI may need to secure still further T-South capacity in the future to serve this industrial demand. For now the request for additional T-South capacity is limited and would only serve a portion of the load if all of these customers return to a bundled service from FEI.

Incremental Costs

The following table sets out the total cost and the estimated mitigation value of the 75 TJ/d in incremental T-South transportation.

Cost Analysis for Additional Volume on T-South (Future Increase in T-South Capacity)			
$0.36/GJ *(Spectra Toll)*	75,000 GJ/d *(Incremental Volume)*	365 *(Days)*	$9.86 million (Approx. before mitigation)
$0.36/GJ *(Winter Mitigation)*	75,000 GJ/d *(Incremental Volume)*	151 *(Days)*	$4.08 million
Net Incremental Cost			$5.78 million

The addition of 75 TJ/d of incremental T-South transportation capacity will result in a total cost of approximately $10 million. FEI expects that T-South will continue to hold value in the winter time so it is reasonable to expect full recovery of the demand charge in the winter period. FEI has not assumed any summer mitigation value, even though some value was realized over the last few summers. Net of the recovery during the winter, the incremental cost of the entire 75 TJ/d in T-South transportation capacity is estimated to be approximately $6 million. The impact of the incremental volume to midstream costs, considering an estimated total volume of 126 PJ, would be approximately 5 cents /GJ.

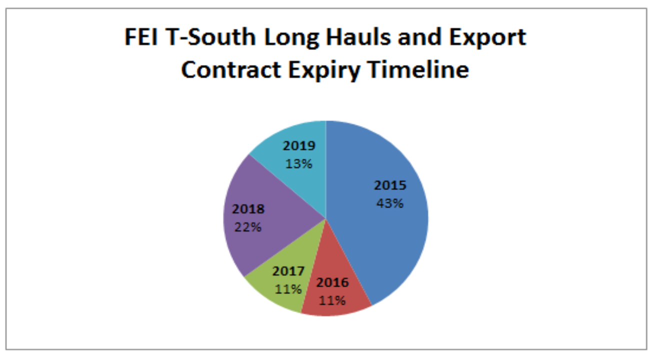
Additional Capacity Mitigation Options

Should market developments proceed at a pace that do not result in a significant increase in additional firm transportation capacity being contracted, then FEI is able to defer entering into firm contracts and defer this for one or more Bid Weeks. This delay would result in avoiding the payment of firm transportation tolls for one or more months after November 2015.

Alternatively, should industrial customers not return to FEI in sufficient numbers to use the full 75 TJ/d in transportation capacity, FEI's contract portfolio offers the flexibility to either allow existing contracts to roll off, or decrease the contracted amounts once they are up for renewal. The table below shows the existing profile of T-South Long-Haul and Export Contracts, and when they would be renewed.

FEI T-South Contract Expiry Timeline

Year	10^3M^3	GJ	%
2015	4,126.40	157,835	43%
2016	1,108.70	42,408	11%
2017	1,045.10	39,975	11%
2018	2,109.40	80,685	22%
2019	1,310.10	50,111	14%
Total	9,699.70	371,014	100%



Summary

With the recent changes occurring in the market for firm transportation capacity on T-South, FEI recommends acting proactively by contracting for an additional 75 TJ/d of capacity on T-South for a minimum five year term. Contracting for this capacity may occur as early as during the next Bid Week that is planned to start on October 1, 2014, with the actual contracted volume to be determined by FEI based on evolving market circumstances faced when the Bid Weeks take place. FEI has flexibility in its contracting portfolio to manage this additional transportation capacity by using it to replace expiring future contracts if sufficient demand does not materialize for all of this capacity.

This approach to securing additional firm transportation capacity is appropriate given the changing market conditions faced at this time.

~~CONFIDENTIALITY~~

Consistent with past practice, previous discussions and positions on the confidentiality of selected filings (and further emphasized in FEI's January 31, 1994 submission to the Commission), FEI is requesting that this information be filed on a confidential basis pursuant to Section 71(5) of the Utilities Commission Act and requests that the Commission exercise its discretion under Section 6.0 of the Rules for Natural Gas Energy Supply Contracts and allow these documents to remain confidential. FEI believes this will ensure that market sensitive information is protected, and the ability of FEI to obtain favourable commercial terms for future natural gas contracting is not impaired.

FEI further believes that the Core Market could be disadvantaged and may well shoulder incremental costs if utility gas supply procurement strategies as well as contracts are treated in a different manner than those of other gas purchasers, and believes that since it continues to operate within a competitive environment, there is no necessity for public disclosure and risk prejudice or influence in the negotiations or renegotiation of subsequent contracts.

If you require further information or have any questions regarding this submission, please contact Hans Mertins at (604) 592-7856.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

Attachment 1.2

Diane Roy
Director, Regulatory Services

Gas Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
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September 24, 2015

Via Email
Original via Mail

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC
V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI or the Company)

2014/2015 Gas Supply Mitigation Incentive Program (2014/15 GSMIP) Review

~~CONFIDENTIAL~~

On October 24, 2013, the British Columbia Utilities Commission (the Commission), pursuant to Order G-174-13, approved the extension of the FEI GSMIP for the period from November 1, 2013 to October 31, 2016. Pursuant to Commission Letter L-5-15 dated February 20, 2015, the GSMIP Term Sheet was amended and reflects all GSMIP mitigation activities are covered under the FEI GSMIP model; the Commission, via L-15-15, accepted the revised GSMIP Term Sheet effective for the 2014/15 gas contract year.

As recognized in the current GSMIP Term Sheet approved by the Commission pursuant to L-15-15, a review of the design of the GSMIP model may be required if there is a difference during any of the three years in the 2013-2016 term of plus or minus $500,000 from the historical average GSMIP payout of $1.1 Million. Once FEI is aware that a $500,000 or greater variance is likely to occur, the Commission must be informed in order to allow for a

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timely review of the model if necessary. The purpose of this provision was to maintain confidence of all parties involved with the design of the current GSMIP model that it would be reviewed in these circumstances to ensure that the model is still valid. However, as stated in the approved term sheet, a variance of this magnitude does not mean that the model is not working in its expected capacity.

This letter is intended to meet the obligation with the current GSMIP Term Sheet to notify the Commission that FEI's incentive payment will exceed $1.6 Million for the 2014/15 gas year. In FEI's view, however, the GSMIP model is continuing to work as intended. As such, FEI is providing supporting material within this letter to aid the Commission in understanding the principal factors that contributed to FEI's ability to generate a high level of mitigation revenue during the current contract year which in turn primarily flowed to the benefit of customers.

In summary, the principal drivers of the higher mitigation revenues was the oversupply of gas at Station 2 and the planned/unplanned maintenance on Spectra, Nova, and Alliance pipelines which has further restricted gas flows to markets out of BC. These two market factors have allowed FEI to achieve record T-South recoveries through its mitigation activities while still reliably meeting customer requirements. In addition, FEI fully has utilized its pipeline capacity (99% utilization) so far in 2014/15 compared to Spectra Energy's utilizing 87% over the same period. For example, for the summer period of April - August 2015 FEI operated at a load factor of 97% in comparison 91% for to the same period in 2014. This performance metric shows the effort and diligence that FEI puts into maximizing recovery for the benefit of customers to capture value in response to market conditions.

The historical mitigation revenue and incentive payment since the current GSMIP model came into effect is shown below in Table 1. Included are actuals to August 31, 2015 and forecasted revenue and incentive payment to October 31, 2015. As seen below in Table 1, the customer savings realized through FEI's mitigation activities is forecast to be $20 Million higher than the best year since the new GSMIP model commenced in 2011/12.

To clarify, of the $67.8 Million in forecasted mitigation revenue, FEI generated $10 Million in August and is forecasting almost $12 Million in the months of September and October, which represents 32% of FEI's Total Mitigation Revenue done in 3 months.

Table 1: Current and Forecasted GSMIP Revenue and Incentive Payment

Gas Contract Year	Mitigation Revenue	Incentive Earned*		Customer Savings	
	$Millions	$Million	%**	$Millions	%**
2014/15 (Forecast to Oct. 31, 2015)	$67.8	$1.94	2.9%	$65.9	97.1%
2014/15 (Actuals to Aug.31, 2015)	$55.7	$1.60	2.9%	$54.2	97.1%
2013/14	$39.5	$1.23	3.1%	$38.3	96.9%
2012/13	$48.8	$1.44	2.9%	$47.4	97.1%
2011/12	$27.7	$0.89	3.2%	$26.8	96.8%

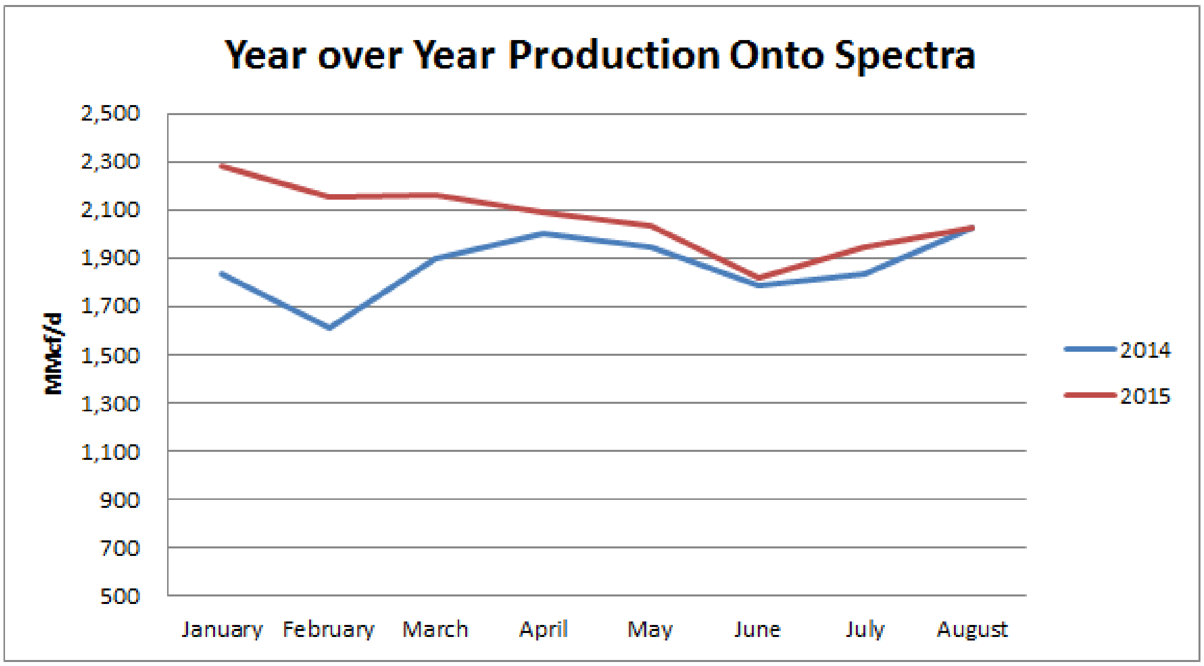
*Net of fixed adjustment ($150K or 165k as applicable)
** Percentage of total Mitigation Revenues

Description of 2014/15 Market Factors

Station 2 Surplus

Over the course of the last year, additional production has come onto the Spectra Energy (Spectra) T-North system with no incremental pipeline capacity to take the production away, as seen in Figure 1 below. Compounding this problem has been multiple pipeline constraints on Spectra's T-South system, Nova, and Alliance pipelines. The net effect of the surplus supply at Station 2 and the pipeline constraints created unprecedented T-South and Southern Crossing Pipeline (SCP) East value during the summer period.

Figure 1: Production onto Spectra Energy 2014 vs 2015



Pipeline Constraints

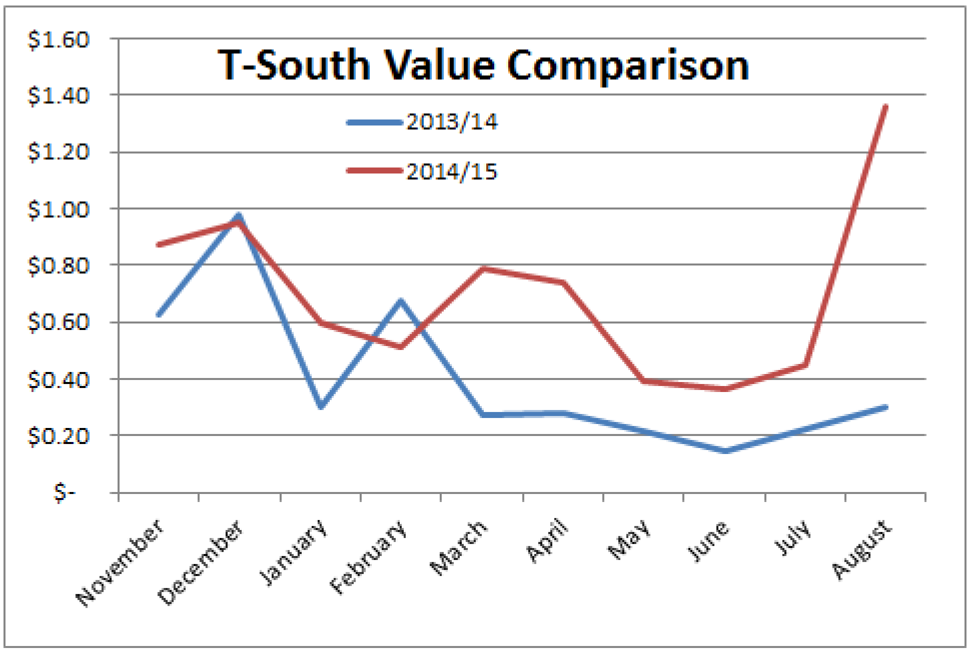
Spectra Energy

There have been a number of constraints on the Spectra Energy pipeline system in the 2014/15 gas year that have caused T-South spreads to increase, as seen below in Figure 2. The nature of some of the constraints are listed below:

- Compressor issue at 4B on the mainline (upstream of Savona tap), which reduced T-South capacity by 150 mmcf/d for approximately 7 weeks during the core winter period;

- McMahon Plant Outage for the month of June and into July which did not reduce the T-South value as expected because of the extra supply that flowed to Station 2 and due to a corresponding outages Nova and Alliance pipelines; and
- Reduced T-South capacity in August and September due to required maintenance following pipeline inspection tool results. With firm contracted capacity on Spectra Energy being 1,292 mmcf/day, Spectra constraints have been at 1,300 mmcf/day and is forecasted lower in September at 1,185 mmcf/day. This reduction will cause firm contracted pipeline capacity to be cut and increase T-South spreads even further.

Figure 2: T-South Value Comparison in Cdn/GJ



Nova/Foothills

There have been a number of constraints on the Nova/Foothills pipeline system in the 2014/15 gas year, some of which have contributed to the increased T-South value which are listed below:

- James River Receipt area restrictions due to several pipeline Maximum Operating Pressure (MOP) reductions. Digs and repairs are in progress. This has effected 175 - 500 mmcf of interruptible pipe and storage capacity. Some of this gas has increased the Station 2 supply situation;
- Restricted capacity to the AB/BC Border caused between 10-25% of firm pipeline capacity to be cut during the month of August/2015; and
- Gordondale and Sunset Creek maintenance, reducing the flow to Nova.

Alliance

Alliance pipeline shippers currently have a free option to flow additional supply from Station 2 or other receipt locations on to Alliance. Alliance posts this Authorized Overrun Service (AOS) percentage of available gas in the afternoon, prior to trading the next day. Alliance has had a number of pipeline maintenance issues which have prevented any extra or IT flow onto their pipeline, causing excess supply to back up to Station 2, stranding more gas at Station 2 and further decreasing the price. This is another factor that has increased the T-South spreads.

Summary

Since the new GSMIP model began in the 2011/12 gas year, the revenue earned and the incentive payment has varied from year to year based on market conditions and FEI's ability to capture the opportunities presented. The current GSMIP model took considerable time and effort to design with stakeholders and the Commission staff and FEI feels that the GSMIP model is continuing to work as intended. The increased mitigation revenue projected in the 2014/15 gas year is due FEI's ability to respond to changing market conditions and capture value for customers. These conditions will or should change over time once more gas can flow onto Nova, more demand occurs in the region, supply gets shut in to balance supply/demand, or producers change their investment to develop gas in the region.

FEI feels no GSMIP model changes are necessary at this time. This update letter to the Commission is for compliance reasons and no further action needs to occur.

If you require further information or have any questions regarding this submission, please contact Bryan Lane at (604) 592-7892.

Sincerely,

FORTISBC ENERGY INC.

Original signed by: Ilva Bevacqua

For: Diane Roy

cc (email only): BCOAPO; CEC